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THE
ASSURANCE MAGAZINE,
AND
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INSTITUTE OF ACTUARIES.

Some Reasons for thinking the System of Reassurance undesirable.
By BENJAMIN NEWBATT, Esq., of the Clerical, Medical, and
General Life Assurance Society.

[Read before the Institute, 25th April, 1864.]

IT has become the practice of late years for Assurance Companies, when applied to for a policy of very large amount, to issue such an one as is required and to reduce the risk within the limits they have prescribed for themselves by effecting reassurances of portions of it with other Companies. The only alternative proceeding would of course be to issue a policy for the amount to which the Company limits itself, and to leave the applicant to effect the remainder of his proposed assurance where he may. Mr. Newbatt's paper, which, as having reference to a matter of official practice merely, is not inserted here, advocates the latter mode of procedure in preference to the former, and adduces a variety of arguments in support of that view.

After some preliminary observations as to the origin of the contrary practice, he proceeds to state that it may serve to make clearer the views he entertains to look at the system under three different aspects, as it affects (1st) the Office employing it, (2nd) the Office granting the reassurance, (3rd) the interests of life assurance in general. Under the first head, he states his objections to any Company accepting a larger risk than it intends to retain ;

urging that, in every such case, it in effect guarantees, without any corresponding benefit, the engagements of all the other Offices amongst which the risk has to be divided; that it may have to pay a higher extra premium than it can itself charge, or to accept a less surrender value than it is called upon to give; and that it is scarcely possible so to adjust the bonuses to be declared by the several Companies concerned in the risk as that the Company making the assurance shall escape without loss on that score. Under the second head the writer expresses his opinion that business of the description in question is transacted in a much less careful way than the ordinary business is; that it was formerly the practice, in dealing with large risks, for certain of the Companies to which proposals had been made to share the duty of investigating the case, and if they did not always make a joint report, they at least came always to a clear understanding with one another as to its merits; whereas, under the existing system, the Company accepting the gross sum collects its own evidence, which may or may not be satisfactory to others, and on that evidence asks, as a matter of course, for the acceptance of its colleagues, which is, perhaps, reluctantly given or reluctantly withheld. The evils arising from this change are particularly manifest, as the writer thinks, in a case to which he alludes, and in which, had independent inquiries been made, facts would have been discovered whilst discovery was of use. As regards the effect of the system of reassurance on the interests of life assurance generally, Mr. Newbatt observes, that if the success and prosperity of one Office tends to the good of all, the converse proposition must be admitted, viz., that none can fail to participate in some measure in the downfall or discredit of any one; and, therefore, if he has shown that in the working of the system the Company practising it, or the Company on which it is practised, suffers harm, he has at least suggested ground for looking well to its true bearings. In so far as the system tends to a monopoly of business in favour of any Company, it is opposed to the common good, and must in the end operate injuriously towards the monopolist. The very benefit which might most be insisted on is therefore a source of danger. After some further observations to the like effect, the writer concludes by saying that he has the satisfaction of knowing that the considerations he has brought forward will not be suffered to pass unheeded, and that he hopes therefore they may germinate in a change of practice.
